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No. 435

In the Supreme Court of the United States

October Term, 1949

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,
Petitioner,
vs.
HAZELTINE RESEARCH, INC.,

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT.

PETITION FOR A WRIT OF CERTIORARI AND BRIEF IN SUPPORT THEREOF.

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v.

HAZELTINE RESEARCH, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

MEMORANDUM FOR THE UNITED STATES AS AMICUS CURIAE IN SUPPORT OF THE PETITION

This case raises a number of questions as to the use and misuse of patents which are of consequence in the field in which the patent and antitrust laws interlock. Because of the importance of the questions and because the decision below in our opinion is in several respects in conflict with principles repeatedly approved by this Court and with decisions of courts of appeals in other circuits, we believe that grant of the petition for certiorari would be in the public interest.

The Government has no concern as to the private interests of the parties to this litigation. As

this Court has repeatedly pointed out, "It is the public interest which is dominant in the patent system". *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 401; *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 665; *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492–493; *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224, 235. And this interest dictates that private equities in individual cases must bow to the overriding public policy which forbids misuse of a patent. See cases cited *supra* and *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249.

Since the pertinent facts are adequately set forth in the petition and brief in opposition, we shall only state briefly our reasons for believing the case worthy of review. There is no dispute as to the facts which we believe to be controlling.

1. *Estoppel to challenge the validity of the licensed patents.*—The court below held petitioner estopped to challenge the validity of respondent's patents. While the court recognized that the doctrine estopping a licensee from attacking the validity of a patent did not apply when the license included a price fixing feature, it thought that the decisions of this Court so holding (*Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402) should be restricted to that precise situation.

This limitation is both unwarranted in principle and in conflict with the decision of the Second Circuit in *Nachman Spring-Filled Corporation* v. *Kay Mfg. Co.*, 139 F. 2d 781 (C. A. 2), which involved an agreement by a competitor to cease making and selling the product covered by plaintiff's patent, accompanied by a covenant acknowledging the patent's validity. In that case the court said (at pp. 783–784):

> It is suggested, however, that the Sola doctrine is inapplicable to an agreement which unreasonably restrains competition but does not fix prices. We cannot agree. True, the court in the Sola case [317 U. S. 173, 63 S. Ct. 173, 87 L. Ed. 165] specifically referred to "the doctrine of estoppel" as being "in conflict with the Sherman Act's prohibition of price-fixing." But the rationale of the opinion is that there can be no valid estoppel to deny the validity of a patent if the estoppel will result in a contravention of federal anti-trust laws. The court concluded its opinion with the statement that "rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. *Morton Salt Co.* v. *G. S. Sup-*

piger Co., 314 U. S. 488, 492, 493, 62 S. Ct. 402, 405, 86 L. Ed. 363." As that act renders unlawful not merely price-fixing agreements but all agreements which, in any way, unreasonably restrain competition in interstate commerce, the conclusion is inescapable that the Sola case doctrine applies to any such agreement.

In the instant case the refusal of respondent to permit all the licensees in petitioner's position to sell to purchasers who might use the product commercially, and the attempted restriction upon the purchasers themselves, would unquestionably constitute an unlawful restraint of competition apart from the protection afforded by the patent laws. The restrictions upon the licensees under the "Home" or non-commercial license necessarily involve an enforced undertaking by these licensees not to compete in the "Commercial" field, similar to the agreement not to compete in the *Nachman* case. In the absence of patent protection all such restraints of trade have been held invalid. *Addyston Pipe & Steel Co.* v. *United States*, 175 U. S. 211; *United States* v. *Yellow Cab Co.*, 332 U. S. 218, 229.

Furthermore, the reasoning and language of this Court in *United States* v. *U. S. Gypsum Co.*, 333 U. S. 364, 387–388, strongly suggest that the principle which precludes estopping a licensee from attacking the validity of a patent encompasses all

conduct which would otherwise be in violation of the antitrust laws. The Court there stated:

> In an antitrust suit instituted by a licensee against his licensor we have repeatedly held that the licensee may attack the validity of the patent under which he was licensed, because of the public interest in free competition, even though the licensee has agreed in his license not to do so.

Thus, it seems clear that the validity of the licensed patents may be challenged in any case where the contract would be illegal in the absence of valid patents.

The court below was concerned with the difficulties of allowing the validity of the patents to be assailed when the license covered over 500 patents. But this case does not call for a resolution of any such troublesome problem. For respondent has charged only that petitioner has used ten of those patents (Br. in opp. p. 8), and the validity of these could be determined without unduly burdening the district court. In any event the aggregation and package licensing of patents in a large pool should not give a patentee freedom to impose restrictions, whether or not the patents are valid, because of the "intolerable burden" of determining their validity (176 F.2d at 807).

2. *Royalty payment upon unpatented products.*—The Court of Appeals held valid the provision of the agreement requiring the licensee to pay royalties upon every radio set, or other specified apparatus, manufactured and sold by the licensee regardless of whether or not it em-

bodied any of the patented inventions. Judge Woodbury dissented on this ground, considering that such a requirement necessarily had the effect of expanding the patent monopoly. In *United States* v. *U. S. Gypsum Co.*, 333 U. S. 364, 389, 400, this Court held that a license arrangement whereby royalties were based on the value of unpatented as well as patented products contributed to the restraint of trade involved in that case. Such a provision has the effect of exerting the power of the patent monopoly over unpatented products, a practice repeatedly held unlawful by this Court. *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661; *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488. Such a charge upon unpatented products would also seem to amount to the imposition of a toll upon acts which members of the public should be permitted to undertake freely. See *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249.

The fact that this may have been a convenient method of computing royalties in the instant case, and that as large an amount could have been obtained by the use of other formulas, does not justify the requirement that the licensee pay royalties on products plainly not within the scope of the patent. The convenience of the patentee does not justify an enlargement of the patent monopoly, in view of the adverse effect of this practice upon competition and prices. *Scott Paper Co.* v. *Marcalus Mfg. Co.*, *supra*, at 255. *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 498.

3. *The validity of a use restriction applicable to licensees and purchasers from licensees.*—In *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175, 305 U. S. 124, this Court sustained the validity of a license limiting manufacturers of patented radio amplifiers to the non-commercial field. Justices Black and Reed dissented. Petitioner in that case purchased amplifiers from a licensee for commercial use with knowledge of the restriction, and was held to have infringed the patents covering the amplifiers. The restriction upheld in that case is substantially identical with that in the case at bar. The Court did not consider it necessary to pass upon the validity of the restriction as applied to a purchaser "in the ordinary channels of trade." We think that the following issues referred to and reserved in the *General Talking Pictures* case are presented here (305 U. S. 125):

> 1. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor?
>
> 2. Can a patent owner, merely by a "license notice" attached to a device made under the patent, and sold in the ordinary channels of trade, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device?

The above issues are before the Court in the case at bar for the reason that this case poses the question whether a contract between a patentee and his licensee which precludes the free use of the patented article in the hands of a purchaser is illegal and constitutes a misuse of patents. The license contract if performed will necessarily have the effect of interfering with the purchaser's free use of the patented article since (a) if the licensee abides by the contract he will refuse to sell to one who intends to disregard the notice; and (b) if the licensee violates the contract and sells to a purchaser for unrestricted use, the purchaser may be subject to a suit for infringement under the *General Talking Pictures* case. Under that case, apparently any purchaser, no matter how remote, would be liable for infringement as long as he had notice of the restriction, and every purchaser would have notice by virtue of the required "License Notice" forbidding commercial use stamped on the article. The restriction and notice together thus clearly extend the patentee's control to a purchaser in the ordinary channels of trade.

It is said that this case only involves the obligation of the licensee to pay royalties and not the rights of any purchasers. But, the restriction on use combined with the compulsory license notice will have the inevitable effect of subjecting all purchasers to the restriction.

This remote control by the patentee is contrary to a long established rule of this Court that when

a patented article is sold and "passes to the hands of a purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress * * *." *Bloomer* v. *McQuewan*, 14 How. 539, 549–50. See cases collected in dissenting opinion of Justice Black in the *General Talking Pictures* case, 305 U. S. at p. 128.

As a practical matter the only means of eliminating this method of carrying the patent monopoly too far is to treat it as a misuse of the patent *ab initio*. For the restrictions imposed upon ordinary purchasers will be effective in practice if a purchaser is faced with expensive litigation if he disregards the restriction.

For these reasons we believe that this case presents the issues reserved in the *General Talking Pictures* case. If the Court regards the cases as indistinguishable, however, we respectfully submit that that case should be reconsidered and the views advanced in the dissenting opinions accepted. Many cases therein cited have emphasized the fact that a patentee may not extend his control over a patented product beyond that granted by the patent law, which only protects the exclusive right to make use or vend, not the right to control subsequent sales by others. Subsequent decisions, cited at p. 2, *supra*, have confirmed the limited nature of the patent monopoly.

Furthermore, we also believe questionable the holding in the *General Talking Pictures* case sus-

taining the division of fields of manufacture by a patentee. The necessary effect of this would seem to be that competitors obtaining licenses in different fields would thereby obtain immunity from competition in the particular field covered by their license. But in any event, it does not appear that in the *General Talking Pictures* case the question of the validity of such a restriction with reference to multiple licenses was considered. Since that case was decided, this Court has clearly indicated that patents cannot be used to prevent competition between licensees. In three recent cases, it has been held to be a misuse of patents or copyrights to use them to restrain or regulate competition among multiple licensees. *United States* v. *Paramount Pictures,* 334 U. S. 131, 144; *United States* v. *U. S. Gypsum Co., supra,* pp. 389, 393, 401; *United States* v. *Line Material Co.,* 333 U. S. 287, 312.

The decision of the lower court with respect to the use restriction would also appear to be in conflict with the holding of the Court of Appeals for the Second Circuit in the case of *RCA Mfg. Co.* v. *Whiteman,* 114 F. 2d 86 (1940), in which it was held that the copyright privilege did not enable a copyright owner, or a licensee thereunder who manufactured and sold phonograph records embodying the copyrighted work (an orchestra rendition by Paul Whiteman), to restrict the use of the records in the hands of a purchaser even though a notice was

attached to the records limiting their use to "non-commercial use on phonographs in homes." The court held that the "common law property" or common law copyright privilege in Whiteman's performances "ended with the sale of the records and that the restriction did not save it; and that if it did, the records themselves could not be clogged with a servitude" (p. 88). The court further stated (p. 88):

> * * * even if Whiteman's "common law property" in his performances survived the sale of the records on which they were inscribed, it would be very difficult to see how he, or *a fortiori* the maker of the records, could impose valid restrictions upon their resale.

This Court has indicated that the copyright monopoly is comparable in scope to the patent monopoly. *United States* v. *Paramount Pictures, Inc.*, 334 U. S. 131, 157–158. Accordingly, if a patentee may not, himself, attach conditions to the patented article after sale, then, as indicated by the court in the *Whiteman* case, he cannot attach such conditions through a licensee.

CONCLUSION

In our view, the public importance of the above issues is such that this Court should grant the petition for certiorari. This Court, in past decisions, has emphasized the public policy inherent in the patent laws. Unwarranted restrictions

which extend the scope of the patent monopoly are a danger to a free economy. In addition, the decision of the lower court is in conflict with decisions of other courts of appeals and with principles repeatedly approved by this Court.

For the foregoing reasons, it is respectfully submitted that the petition for writ of certiorari should be granted.

PHILIP B. PERLMAN,
Solicitor General.

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